W8	Learning Area	Entrepreneurship	Grade Level	11/12
	Quarter	4	Date	Week 8

IV. LEARNING PHASES AND LEARNING ACTIVITIES

I. Introduction (Time Frame: 5 minutes)

In your previous lesson, you have learned about the importance of bookkeeping which provides information to make general strategic decision for its revenue and income goals that it will include the financial statements such as income statements, balance sheets, journals, and ledgers.

In this lesson, you will know that profit is a financial gain from a transaction or from a period of investment or business activity, usually calculated as income more than costs or as the final value of an asset in excess of its initial value. To make your business gain more profit, begin by adding up all the money your business has made in a set period of time. Other sources, like products sold, services rendered, membership payments, or, in the case of government agencies, taxes and fees.

D. Development (Time Frame: 90 minutes)

Forecast is advance information that could help us prepare and ready for any incoming event. Forecasting is the tool used in planning that aims to support management or a business owner in its desire to adjust and cope up with uncertainties of the future. If anyone of us can predict that we can be rich, so it means all of us will be rich. This fantasy is played out every day in boardrooms across the globe with the practice of business forecasting.

Compute the Gross Profit

The profitability ratios are a group of financial statement that primarily determine the profitability of the business operation.
The gross profit rate on a product is computed as:

Net Sales	xxxxxxx
Less: Cost of sales	xxxxxxx
Gross profit	xxxxxxx

By using the formula, the gross of ABC Merchandise in the year 2019

Net Sales	P 834, 000.00
Less: Cost of Sales	677, 000.00
Gross Profit	**157, 000.00**

Profit is the gross income. The amount of gross profit provides information to the entrepreneur about revenue earned from sales. **Cost** refers to the purchase price of the product including of the product including the total outlay required in producing it. The gross profit margin is computed as follows: **gross profit rate = gross profit/net sales**

The gross profit rate measures the percentage of gross profit to sales, indicating the profit that the business realizes from the sale of the product.

The gross profit rate of ABC Merchandise for the year computed as follows:

gross profit rate = 157,000.00/834,000.00
= 18.82%

The gross profit rate may signal to the entrepreneur that the amount of margin on sales is 18.82%. This rate will be used to determine whether the amount of gross profit can cover the operating of the business. Since the gross profit rate of ABC Merchandise is 18.82%, the cost ratio to sales will be 81.18%. This information will help the entrepreneur in assessing whether the cost is too high or too low. Any product with a very high cost will not become competitive in the market. It will also help the entrepreneur set the selling price.

Operating Profit Margin Rate

The operating the profit margin is the excess of gross profit from operating expenses.

Gross profit	xxxxx
Less: Operating Expenses	xxxxx
Operating profit margin	xxxxx

The operating profit margin is the second level of revenue in the income statement. At this stage, not only the cost of buying or making the product that has been deducted is included but also the operating expenses. These are expenses incurred during a particular period only, and are not expected to provide benefits to any future period. The operating expenses are also period costs.

In case there are no financing charges like interest, expenses, and income tax, the amount of the operating profit margin is equal to the net income.

Gross profit	P 157,000.00
Less: Operating expenses	90,000.00
Operating profit margin	P 67,000.00

This information that the business realized an income of P 67,000.00 during the year after deducting the cost and operating expenses from the sales made.

Operating profit margin rate = Operating Profit Margin/Net sales

By applying

Operating profit margin rate = 67,000.00/ 834,000.00
= 8.03 %

The operating profit margin of the business measures the percentage of profit available after deducting the cost of sales & operating expenses of the business. A higher operating profit margin is favorable to the business.

Net Profit Margin Rate

Operating profit margin		xxxxxxx
Add: Interest Income		xxxxxxx
Total		
Less: Interest Expense	xxxxxx	
Income Tax	xxxxxx	xxxxxx
Net Profit margin		**xxxxxx**

The Income statement is the net profit margin & the third level in the revenue. The business is only given consideration like interest expense and income tax.

Operating profit margin	P 67,000.00
Less: Income tax	20,000.00
Net profit margin	**P 47,000.00**

The income statement of ABC Merchandise does not reflect any data on interest expense. Only income tax has been deducted from the operating profit margin.

Net profit margin rate = Net Profit /Net Sales

By applying the formula, the profit margin of ABC
Net profit margin rate = 147,00.00/ 834,000.00
= 5.63%

ABC Merchandise appears to have earned 5.63% of its total sales of P834,000 during the year. This profit rate must be compared with those of other similar businesses within the industry.

Analyze the Liquidity Status of the Business Liquidity Ratios

Liquidity Ratios

An important class of financial metrics used to determine a debtor's ability to pay off current debt obligations without raising external capital. (Investopedia)

Current ratio = Current assets / Current liabilities

Quick ratio = (Current assets – Inventories) / Current liabilities
= (Cash and equivalents + Marketable securities + Accounts receivable)/ Current liabilities

The **quick ratio** measures its short-term obligations with its most liquid assets and therefore excludes inventories from its current assets.

Financial statements are important in a company management as a means of communicating past successes as well as future expectations. The financial statement records all the operating results such as sales, expenses and profits or losses.

Return of Investment (ROI)

The Return of investment (ROI) measures the amount of net income per peso invested to the business.
The formula to compute ROI is as follows

Return of Investments = Net Income/ Average Total Assets

The average total assets are by dividing the sum of the total assets at the beginning and end of the period.

Table 1

Projected Five Year Balance Sheet

Fit Mo'to Ready to Wear Online Selling Business

	Year 1	Year 2	Year 3	Year 4	Year 5
ASSET					
Cash	337,398.56	686,417.05	1,052,886.47	1,437,679.36	1,841,711.89
Total Assets	337,398.56	686,417.05	1,052,886.47	1,437,679.36	1,841,711.89
Liability	-	-	-	-	-
Owners' equity	337,398.56	686,417.05	1,052,886.47	1,437,679.36	1,841,711.89
Total Liabilities and Owner's Equity	337,398.56	686,417.05	1,052,886.47	1,437,679.36	1,841,711.89

Table 1

Projected Five Year Income Statement

Fit Mo'to Ready to Wear Online Selling Business

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	1,545,673.95	1,622,957.64	1,704,105.53	1,789,310.80	1,878,776.34
Cost	1,213,275.38	1,273,939.15	1,337,636.11	1,404,517.91	1,474,743.81
Gross Profit Before tax	332,398.56	349,018.49	366,469.42	384,792.89	404,032.53

Yearly increase in revenue is assumed at 5%

Yearly increase in cost is assumed at 5%